

No.21

Beveridge on Unemployment in 1909:
three inflows and outflows

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March 2001

March 2002, with corrections

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Key Words : Beveridge, unemployment, a perfect labour market, Pigou, Lange, the New Liberalism, the Welfare State.

JEL Classification (*Journal of Economic Literature*)

(a)primary: B31 History of Thought: Individuals

B Methodology and History of Economic Thought

(b)secondary: N33 Europe: Pre-1913, N3 - Labor, Demography, Education, Income, and Wealth, N Economic History

(c)secondary: I31 General Welfare; Basic Needs; Quality of Life

I3 - Welfare and Poverty, I - Health, Education, and Welfare

Abstract

Sir William Henry Beveridge (1879-1963) is famous for being one of the fathers of the modern Welfare State. Nevertheless, we must not forget his first career as a specialist on unemployment. What is lacking is a consideration of positioning his *Unemployment* [1909] in a history of economic thought.

We focus on Beveridge's theory on unemployment from 1903 to 1909. We shall make two conclusions: Firstly, a reciprocal effect - between Beveridge's economic doctrine and his practical life - enables him to shape the perfect labour market theoretically, legally, and practically. Secondly, Beveridge's *Unemployment* is such an influential economic writing - more so than it at first seems - that we should position it properly in a history of economic thought, by making use of a perfect market model.

21st November 2000
21st February 2001(revised)
7th March 2001(with corrections)

Beveridge on Unemployment in 1909

Three inflows and outflows

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Version 2.5

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Section 1 Introduction

Sir William Henry Beveridge¹ (1879-1963) is very well known as one of the fathers of the modern Welfare State, along with Sidney and Beatrice Webb, and John Maynard Keynes. Needless to say, over the past decades, there have been a considerable number of studies of his general thoughts about the social security system². Those studies have focused on his *Social Insurance and Allied Services* (1942), which is published as a compilation of his works during his last years.

Nevertheless, we must not forget his first job as a specialist in unemployment. After Oxford, he worked at Toynbee Hall to investigate the unemployed, then moved to the *Morning Post* to enlighten ordinary people and promote the public awareness of Social Problems. Almost no other researchers have taken up this point as a main theme. Indeed, it is true that many books and papers³ have only referred to his first book, *Unemployment* [1909]. However, especially from an economic point of view, little is known about his theories of unemployment in detail. Thus, though we have a splendid biography by Jose Harris, fundamental questions remain unanswered. What seems to be lacking is a consideration of positioning his *Unemployment* in a history of economic thought.

This paper is part of a larger project. The aim of the project is to reconsider Beveridge's contribution to the theory of unemployment.

¹ Later, Lord Beveridge.

² On this subject, see Hills, Ditch, and Glennerster (eds) [1994], particularly Abel-Smith [1994].

³ For instance, see Hutchison [1953] pp.415-416 and Backhouse [1985] pp.247-248. Schumpeter simply referred to Beveridge in a single sentence, see Schumpeter. [1994(1954)] p.944, footnote 57. There is no name of him in the index to Blaug [1978(1962)], the third edition. In the fifth one, Blaug referred to Beveridge's *Unemployment* in the context of public works, see Blaug [1996(1962)] p.662. A recent handy dictionary of economic thought treats him only in the 1940s, see Beaud and Dostaler [1997(1995)] p.49, p.51.

Pursuing this aim, we will clarify the relationship between his theory of unemployment in his youth, and that of national security in his later years. Then, we will cast a new light on the history of the modern Welfare State - from an economic point of view in particular. Recently, there has been a renewed interest in Keynes (and Ralph Hawtrey) concerning the UK managed economy. Nonetheless, if we provisionally use the term "the modern Welfare State" in the sense of a hybrid between Keynes' managed economy and Beveridge's social security system, do we need a wider perspective of their combination than ever?

This paper deals with his early career⁴. Specifically, we focus on Beveridge's theory of unemployment from 1903 to 1909. We shall conclude this paper in two phases. Firstly, a reciprocal effect - between Beveridge's economic doctrine and his practical life - enables him to shape the perfect labour market theoretically, legally, and practically. Secondly, Beveridge's *Unemployment* [1909] is such an influential economic work - more than it at first seems to be - that we should position it properly in a history of economic thought.

This paper is organised as follows. Section 2 analyses *Unemployment*. Section 3 describes the background behind the book. Section 4 explains his influence on some of the later economic works. Section 5 summarises the main arguments, then concludes as a whole.

Section 2 The Theoretical Structure of *Unemployment* [1909]

This section focuses on Beveridge's *Unemployment* [1909], from a theoretical point of view in particular. It is divided into three groups: the character of his approach to unemployment, the classification of it, and the remedies for it.

2-1 Unique Approach

⁴ This owes to Harris' subdivision, see Harris [1994] p.27.

His approach is unique because his recognition of the unemployment problem was exclusively modern⁵. Here, "modern" means that his analysis goes far beyond those typical of the 19th century.

The main title and sub-title of his book both symbolised the uniqueness of his viewpoint. Around 1908, Beveridge named his first book *Unemployment: A Problem of Industry*. When he prepared to publish his book in 1905⁶, the title must have been *The Unemployed: An Economic Question*. Although, as Fujii [1988] has clarified, the centre of gravity had then shifted from the problem of the unemployable to that of the unemployed, we emphasise the second shift from the unemployed to unemployment. Beveridge said:

The inquiry must be essentially an economic one. . . . With this in view the problem must be approached, not from the standing point of the Poor Law or of charitable administration, but from that of industry.
(Beveridge [1909] p.3)

This perception had never changed since 1905. He declared in the introduction to his memoranda:

The problem of the unemployed [is] *economic*; i.e. there are certain economic and social forces tending to produce temporary or recurrent involuntary idleness. Unemployment [is] not merely personal or sporadic in nature.⁷

In the 19th century, a very common view was that poverty was due to

⁵ For this reason, we disagree with Freedman's view; "Beveridge's attitude to unemployment ... was not a new one ..." (Freedman [1978] p.211).

⁶ The Beveridge Papers (hereafter as BP), Reel 2, Section 3, Item 12, "Plan for The Unemployed: An Economic Question" (1905).

⁷ BP, Reel 2, Section 3 Item 12, italics is underlined in original.

a labourer's own fault. Being unemployed directly meant being unemployable - rioters, vagabonds, or lazybones. As self-help institutions, such as cooperative societies, friendly societies, and labour unions were organised in the Victorian Era, the virtues of the middle class gradually prevailed among even the labour class. Thus, even in the late 19th century, self-help and saving were still virtues. For instance, the Charity Organisation Society (COS) thought that relief should be restricted to people having the desire to improve themselves⁸.

Trying to get rid of this old-fashioned thought, Beveridge constructed a modern theory to take its place.

In the first place, he excluded "the character and the control of individuals"⁹ from his main analysis for three reasons; firstly, the number of the unemployable was not so great. Secondly, no improvement of workmen's personality would eliminate the other economic factors in unemployment¹⁰. To be sure, he admitted there was room for "improvement of human character as a remedy for unemployment"¹¹. Nevertheless, it was rather more practical to abolish industrial conditions that induced people to idleness or slovenliness. Thirdly, the term "unemployable" was fluid and indefinite¹². The word "employable" was so volatile that, for example, the best carpenter could be unemployable as a compositor. It was not scientific to use such an ambiguous word. For him, it was impossible to distinguish "can work" from "can't work".

In the second place, he paid more attention to economic or industrial conditions surrounding workers, than to the workers themselves. Here, we should note that Beveridge did not regard the distinction between the unskilled and the skilled as important. If a chronic excess of labour were

⁸ See Thane [1996] p.23.

⁹ Beveridge [1909] p.133.

¹⁰ Beveridge [1909] p.138. Here, he admits that if degenerate people could be abolished, the volume of idleness would be diminished.

¹¹ Beveridge [1909] p.138.

¹² Beveridge [1909] p.136.

confined to unskilled work¹³, it might be due to personal lack of ability. And if it were confined to skilled work, it might be attributed to trade unions that force high wages. However, the fact was that both workers suffer from unemployment. Thus, there must be other reasons. That is the very situation he wants to analyse. It is a macroeconomic or industrial problem.

Beveridge generalised a theory of unemployment in the 20th century from a firm recognition that parasitic men might "logically be excluded"¹⁴. In this sense, he confronted the problem for ordinary people in every industry, regardless of being unskilled or skilled. On the other hand, the unemployment problem in the 19th century lay exclusively with that of aged or lazy or disabled people - men who are 'special', so to speak. This is why we name his theory "modern".

2-2 Classification of Unemployment

One of the most notable features of *Unemployment* is his clear-cut classification of unemployment. Unlike previous studies, he directly classifies the causes of unemployment themselves, not the types of the unemployed. Both the old Poor Law system in 1601 and the new one in 1834 tried to distinguish the able-bodied poor from others, or men subject to indigence from men in poverty¹⁵. These attempts, however, totally failed. On the other hand, Beveridge abandoned this way because of its impossibility, instead pointing out economic conditions leading to human vices.

We can sum up by saying that these conditions consist of three factors:

¹³ Although Beveridge's analysis seems to be restricted to the work of the London docks and wharves, he is sure that the diagnosis is relevant to every industry. See Beveridge [1909] p.99.

¹⁴ Beveridge [1909] p.135.

¹⁵ See the following sentence, "The concept of classification lay at the heart of many of the debates over social policy during the nineteenth century" (Driver [1993] p.95).

fluctuations of industrial activity (seasonal fluctuations and cyclical ones), the reserve of labour, and changes of industrial structure¹⁶. We shall discuss these in detail.

Firstly, fluctuations of industrial activity were further roughly divided into two different types: seasonal fluctuations and cyclical ones. Indeed, most trades regularly had busy months and slack months. For instance, the building trade was slack in winter for climatic reasons. In contrast, Christmas is busy for wholesalers. Beveridge, however, did not put a stress on the seasonal type. He regarded it as no acute distress. Thanks to seasonal regularity, workers and traders can predict business situations and somehow prepare for them. Therefore, "seasonal fluctuations becomes a question not of unemployment but of wages"¹⁷. It is sufficient for workers to eliminate low wages. We should note here that this factor is independent of the characteristics of individual workmen.

As to cyclical fluctuations, Beveridge's attitude was very prudent. He mentioned three theories¹⁸ to explain good and bad trade. In the first type, the volume of metal currency led to industrial fluctuation, which corresponded to the rise and fall of prices. This inference could be understood as the Quantity Theory of Money, though he did not use the term. The second type was the "over-production" theory. The third was the "under-consumption" theory advanced by J. A. Hobson¹⁹. According to Beveridge, these three types seemed only to explain part of the facts. They did not clarify cyclical changes. These theories "must be treated at best as no more than hypotheses to be tested by the facts"²⁰. This remark indicated both his scientific prudence and his positivism. He pays

¹⁶ Beveridge [1909] pp.13-14.

¹⁷ Beveridge [1909] p.37.

¹⁸ Beveridge [1909] pp.57-58. He rejects the sun-spot theory advanced by W. S. Jevons.

¹⁹ Beveridge refers to Hobson's *The Problem of the Unemployed* (1906) only. He does not mention Hobson's other political or philosophical works. See Beveridge [1909] p.58.

²⁰ Beveridge [1909] p.64.

attention to simple facts, not causes, of cyclical movements, saying that it "means discontinuity in . . . the demand for labour"²¹. Although his attitude is obscure towards the causes of cyclical fluctuation, it is clear that he is satisfied with the consequences of theories – that measures of palliation are needed.

Secondly and most importantly, almost all trades need a reserve supply of labour. Beveridge discovered, from numerous charts, the existence of the irreducible minimum of unemployment. Even at the height of a boom, this never disappears. Why is there a chronic excess of labour? The answer lies in the necessity of the reserve of labour. Three elements can be pointed out: fluctuations in the total volume of work, the supply of labour without free mobility from one direction to another, and the perpetual chance of work. As is typical in the dock and wharf industry, each centre has independent demands for labour which are subject to irregular fluctuations. For each separate employer at a dock who faces irregular arrival and departure of ships, it is uneconomical to employ workers on a regular basis. Besides this, if there is no or poor communication between the employees and employers, they cannot prepare themselves in good time for the supply of or demand for labour. This is termed "the friction of the labour market"²². Poor communication, however, does not trouble employers, because numerous homogeneous workers wait at the dock front in the early morning every day. This is the third element. In short, casual employment prevails in London and elsewhere, owing to short engagements and chance in the competition for employment. This peculiarity of the labour market leads to the necessity for its reserve.

It is significant that Beveridge discovered the reserve of labour for three reasons.

Firstly, his discovery is deeply associated with his further evolved recognition of the nature of the labour market. He asked himself why the

²¹ Beveridge [1909] p.65.

²² Beveridge [1909] p.81.

supply of labour almost always seems to exceed the demand. This was the central paradox of the unemployed problem:

The explanation of the paradox is really a very simple one - that there is no one labour market but only an infinite number of separate labour markets. (Beveridge [1909] p.70)

He claimed here that the labour market differed from those of other ordinary commodities. Separate markets caused maladjustment of efficient information and mobility. "The greatest barrier to free movement in any area is ignorance"²³, custom, or distance²⁴.

Secondly, his discovery immediately suggests remedies for unemployment. As he asserted:

Mere mobility of labour is not enough. It must be organised movement and backed up by organised selection. Separate preference lists at each centre of employment are not enough; the lists must be amalgamated. (Beveridge [1909] p.87)

His key-word is "organisation". "Organisation among the men themselves helps to unify the labour market and de-casualise demand"²⁵. We will later discuss concrete institutions in Section 2-3. Here again, it is worth noting that he excluded individual factors from the causes of unemployment. "The casual labourer . . . is neither unemployable nor superfluous. He is what he is in response to an effective demand"²⁶.

Thirdly, Beveridge associated successive changes of industrial structure with the adaptability of labour. Modern countries such as Britain developed faster. It was necessary and inevitable to replace old

²³ Beveridge [1909] p.78.

²⁴ Beveridge [1909] p.81.

²⁵ Beveridge [1909] p.105.

²⁶ Beveridge [1909] p.106.

machines with new ones, established processes with better ones, and labour in one form with fresh combinations²⁷. However, adding to advancing age, perpetual changes of industrial structure destroyed the adaptability of the labourer. To quote him:

Changes of industrial structure or of individual firms place men out of harmony with their environment. Ignorance and lack of adaptability prevent them from recovering harmony. Unemployment results because, though men may be required, they are no longer of the sort required. (Beveridge [1909] p.124)

Consequently, millions of workers with varying abilities were scattered in a thousand towns. Moreover, an "unsatisfied demand for labour . . . does co-exist with an unemployed supply"²⁸. The reserve of labour corresponded to maladjustment, mainly of place. On the other hand, this factor coincided with that of quality.

Interestingly, at least around 1909, Beveridge did not lay much stress on industrial training, which would normally improve the quality of labour. He claims that "its direct value as a remedy for unemployment is somewhat limited"²⁹. For "it cannot touch the causes of industrial fluctuation or in practice prevent casual employment"³⁰.

To sum up this section, the most important and unique point is Beveridge's analysis of the reserve of labour. Although there are two other phenomena (fluctuations and changes of industrial activity or its structure), these fluctuations and changes result in the necessity of the reserve of labour³¹. The reserve then leads to casual employment. Consequently, irregular demand for labour tends to bring about poverty.

²⁷ Beveridge [1909] p.111.

²⁸ Beveridge [1909] p.115.

²⁹ Beveridge [1909] p.131.

³⁰ Beveridge [1909] p.131.

³¹ Beveridge [1909] p.193.

Therefore, he attached value to regular employment, or to preventing casual employment. How to organise the unified labour market was his central concern in this period. We shall deal with remedies for unemployment on the basis of his diagnosis.

2-3 Remedies for Unemployment

Based on his analysis, his remedy for unemployment was a close combination between the Labour Exchange and employment insurance. Although previous studies³² have ignored this, or at least treated it very superficially, he himself realised this connection:

The Labour Exchange is required to reduce to a minimum the intervals between successive jobs. Insurance is required to tide over the intervals that will still remain. The Labour Exchange mobilises the reserve of labour for fluctuations . . . Insurance is needed to provide for the maintenance of the reserves while . . . waiting for re-absorption. (Beveridge [1909] p.229)

First of all, Beveridge wanted to introduce an organisation into the labour market, the same organisation which was common in other ordinary commodities. There were definite places to which the would-be buyer went, and at which the would-be seller was to be found³³. It was the "market" or "exchange". It was necessary and convenient for them to communicate with each other. As for labour, however, it remained completely different. Obtaining employment, or selling labour, still depended on a method of personal application at the workplace. The method was to hawk blindly from door to door. In other words, there

³² See, for instance, Freedon's argument; "Beveridge, on the contrary, dealt with the problem of unemployment ... in detachment from other crucial issues of social reform ..." (Freedon [1978] p.210).

³³ Beveridge [1909] p.197.

existed no organisations such as centres or offices or exchanges in the labour market. In Germany, there were already offices where able-bodied workers "are required to register daily, and must accept any offer of suitable work at the current rate of wages"³⁴.

A registration system was important as the workers' ability and willingness could be tested and checked automatically. The new Poor Law in 1834 had another type of test. There was a clear line between the class of independent labourers and that of paupers. This distinction was based on the deterrent logic of less eligibility, which meant that the economic situation of the relieved paupers should be below that of workers without relief. In addition, out-door relief was in principle exhibited. Thus, whether to apply to enter a workhouse or not was a self-acting test of whether a person needed true relief or not. Life in a workhouse was so severe that only genuinely indigent people should have registered. Nevertheless, this experiment failed completely³⁵. On the other hand, the Labour Exchange could assist the unemployed cheaply and effectively because the state was able to have direct supervision of the labour market³⁶. It was not the provision of temporary relief as in the Poor Laws, but the abolition of casual employment itself. He claimed:

. . . the policy is one for the permanent and preventive treatment of the problem; it is not concerned with what may . . . be the best available palliatives for present distress. (Beveridge [1909] p.192)

This self-acting test was closely related to feasibility of insurance against unemployment. As labour unions in the late 19th century could directly check and test the needs of their members, the Labour Exchanges could do the same thing if they had unified information about the unemployed. Through this test, unions could pay unemployment benefit

³⁴ Beveridge [1908], reprinted in [1909] p.245.

³⁵ See Beveridge [1909] p.215.

³⁶ Beveridge [1955] p.60.

to those who were really in distress; that is, those who registered every day. Because the benefit fund depended on a union member's contribution, unions had an incentive to use their money effectively. Thus, the "provision of unemployed pay leads almost automatically to the development of a trade union labour registry or labour exchange"³⁷.

Insurance against unemployment and many further measures played a minor role, though the former was closely connected with the Labour Exchange. For they "suffice to aim at preventing, not unemployment, but the distress which it now involves"³⁸. Here we can confirm that de-casualising employment is the most important aim for Beveridge. There are two further minor measures: public work and elasticity of wages. Firstly, public work may be able to counteract industrial fluctuation: it is not for stimulating effective demand as a whole, but for balancing slack and busy periods through the power of public authorities. Nonetheless, there remain only a few profitable works. Its "applicability therefore is strictly limited"³⁹. Secondly, greater elasticity of wages is worthwhile as it serves to steady employment. If employers, for example in the building trade, can even out wages between summer and winter, they can offer a higher demand for labour in the winter.

In brief, organisation "among the men themselves helps to unify the labour market and de-casualise the demand"⁴⁰.

The abolition of this custom [of hawking] - in other words, the deliberate organisation of the labour market - is the first step in the permanent solution of the problem of unemployment.

(Beveridge [1909] p.198)

³⁷ Beveridge [1955] p.60, from the *Morning Post* in July 1907.

³⁸ Beveridge [1909] p.220.

³⁹ Beveridge [1909] p.231.

⁴⁰ Beveridge [1909] p.105.

Section 3 Three Inflows into *Unemployment*

This section will deal with Beveridge's background behind *Unemployment* [1909]. It is possible to separate it into three elements: his actual experience, direct influence, and indirect connection. As to actual experience, we will briefly follow his life from 1903 to 1908. Regarding direct influence, we will take up the atmosphere of those days. And concerning indirect connection, we will introduce a theoretical model in the light of a developmental history of economic thought. These three inflows constitute his doctrine of unemployment.

3-1 From Toynbee Hall to the *Morning Post*

Firstly, we shall briefly sum up Beveridge's official life. In 1903, Beveridge was scouted by Samuel Bernet⁴¹ (1844-1913), and became a member of Toynbee Hall in the East End of London. In this residential settlement house, we could superficially look upon him as a social worker. However, we should regard him as a social reformer. The former works with Christian pity in the face of and for the sake of real poor individuals. On the other hand, the latter works for an invisible and abstract ideal. The time at Toynbee Hall was very precious, partly because he became a well-known specialist on unemployment, and partly because he was trained as a young journalist when he dealt with the *Toynbee Record*. Then, in 1905, Febian Ware and Lord Glenesk, respectively editor and owner of the *Morning Post*, recruited him. As leader-writer, Beveridge enjoyed his free time. Again, he kept in touch with official or volunteer activities such as the London (Unemployed) Central Body and the Mansion House Relief Committee. Flextime and high-salary piecework enabled him to

⁴¹ Bernet was Vicar in a very poor Whitechapel parish. He was also a founder of both COS in 1869 and Toynbee Hall in 1884. He tried to connect the poor with the rich in a residential settlement where everyone lived together. He scouted Arnold Toynbee (1852-1883) too. See Thane [1996] p.23 and Beveridge [1955] Chapter 2.

investigate and study unemployment in the daytime. During the *Morning Post* age, he went to Germany to inspect her Labour Exchange system. After this journey, he was called as a witness to the Royal Commission on the Poor Laws⁴². He reported on the Labour Exchange with the assistance of Sidney and Beatrice Webb. After various experiences, he was finally scouted by Winston Churchill to be a civil servant in the Board of Trade in 1908.

This period was fruitful for Beveridge, who was to make his debut as an expert on unemployment, in three respects. Firstly, he could take a close look at the real poor in the settlement house, and observes the facts of unemployment. Consequently, he fully realised that an old-fashioned temporary aid was not a true resolution, but simply a satisfaction to the charitable. Secondly, due to flextime and high-salary piecework, he engaged in investigating unemployment, writing on various political issues, lecturing, and leading official and informal meetings. The *Toynbee Record* and the *Morning Post* enabled him to earn a living "by studying social problems theoretic ally and practically and writing about it"⁴³. In short, he was a researcher, a journalist, a teacher, and an able leader of official and volunteer groups. Thirdly, during this time, he learned the art of journalism; that is, how to persuade ordinary people by pen power. Gathering all of the three, his chaotic - or eclectic - style resulted in the making of a lecture on unemployment at Oxford in 1908, and of an academic paper⁴⁴ on the labour exchange in *Economic Journal* in March 1908. By this time, he had become a specialist on unemployment.

3-2 A New Generation

Beveridge was deeply in touch with the outcomes (policies) of the

⁴² The dates were the 14th and 15th of October 1907.

⁴³ Beveridge [1955] p.70.

⁴⁴ The title is "Public Labour Exchange in Germany", reprinted in Beveridge [1909].

New Liberalism in the 1900s⁴⁵. We do not wish to imply that he was clearly conscious of strict logic of, for instance, Idealist philosophy or ideology (Thomas Hill Green)⁴⁶, and holism or organicism (L. T. Hobhouse and J. A. Hobson). Yet, we mean that he is on a 'big tide' of the New Liberalism⁴⁷, and that he promotes - unlike the above three theorists and like J. M. Keynes afterwards - a new conception of the functions of the State. There is enough evidence to show that our claim is relevant.

In the first place, after he was disillusioned by the activities of social workers, he could consider the poor problem from a broader perspective. The scope of social workers on unemployment is too restricted. As he said:

I don't think social worker activities worth much study in themselves, . . . but useful first and foremost as themselves means of knowledge.⁴⁸

He was sure that the area of agenda was too small in the 19th century.

The one thing in which I am interested wholly and completely is the getting to know something about human society and working at some

⁴⁵ On this point, see Weiler's sentence; "By the first decade of the twentieth century, it had become commonplace ... that government must attend to social problems previously left to private charity" (Weiler [1982] p.23).

⁴⁶ See the following comment; "his purposes were different from those Green, Toynbee, and Barnett had articulated in the 1880s. ... in favour of objective opinion and policy, he was declaring himself a member of the new generation of reformers..." (Meacham [1987] p.137). In addition, the New Liberalism, or Liberal collectivism, "requires that a social commitment be made to certain minimal objectives which are seen as a condition of existence for a liberal society" (Cutter et al.[1986] p.1). For further detail of the New Liberalism, see Clarke [1988], Freedon [1978], Freedon [1986], Hobhouse [1911], Hobson [1938], and Weiler [1982].

⁴⁷ For arguments against our judgement, see Freedon [1978] pp.210-211.

⁴⁸ A letter to his mother, 1904. This citation is from Harris [1997] p.84.

part of its machinery. (Beveridge [1955] pp.14)

Then there is another class of legal reforms needed at the present day - vitally important and resembling neither Bentham reforms nor the legal emendation . . . A reform of that sort is rather social than legal. (Beveridge [1955] pp.17-18) ⁴⁹

We should note the words "society", "social", and "machinery". These indicate his bird's-eye view with scientist's glasses. As to respective charity activities, he confesses that "slumming" and "good works" were discouraging him when he stayed at Toynbee Hall as a visitor in his third year of Oxford⁵⁰. Beveridge had inherited part of his father's disposition. His father disliked "horny-handed mechanics", "soup-kitchens for the proletariat", and maintained that it was in vain "trying to genial to people with whom you have little in common"⁵¹. Although it seems to be a paradox at first glance that Beveridge did not intend to be a social worker who was full of charity, it is reasonable to regard him as a social reformer who is more interested in the actual working of the state.

In the second place, we must draw attention to the fact that, from 1903 to 1908, Beveridge was trained as a journalist of social problems. To investigate unemployment itself advances the art of journalism:

So I was set to learn about the main economic problem of those days, not from books, but by interviewing unemployed applicants for relief, taking up references from former employers, selecting the men to be helped, and organising the relief work. (Beveridge [1955] p.23)

He had an ambition to reform society as a whole. He also had the cool

⁴⁹ Both extracts are from Beveridge's letters to his father in 1903.

⁵⁰ Beveridge [1955] p.15.

⁵¹ All three extracts are from a letter of Beveridge's father to him in 1903. See Harris [1997] p.75.

eyes of a natural scientist, like Thomas Huxley⁵²; he had a gift for statistics; finally he had a career as a journalist. In short, he had distinguished himself as a specialist on unemployment by 1908. Beveridge states:

I should not have to write to order about extraneous subjects - but simply to stick to social questions, formulate a policy, bring a scientific understanding of these questions home to the ordinary comfortable public⁵³.

Journalism was the most important of his numerous facets, and was responsible for opening his eyes to social problems.

In the third place, although *Unemployment* [1909] shows little influence of ideological or political issues, Beveridge mentions J. A. Hobson on many occasions, stating:

Taxation of large incomes ... is, no doubt, also a good thing in so far as money is needed for public purposes; ... a certain amount of wealth ... might be more advantageously used in meeting immediate necessities (e.g., for education, for sanitation ...). (Beveridge [1909] pp.63n-64n.)

Beveridge does not wholly agree with Hobson's "under-consumption" theory. In turn, he has a favourable impression of his political thought.

In conclusion, Beveridge had a new conception in the 1900s; he takes it for granted that State intervention is necessary for protecting the Liberal world⁵⁴. In this sense, he has been in the midst of the New Liberalism, though he does not write a strict theory of it. Additionally, his enthusiasm for the Labour Exchange could be looked upon as being along the same

⁵² "I think Huxley is the modern whom I am most inclined to make my hero". This extract is from Harris [1997] p.68, a letter in 1902.

⁵³ This quotation is from Harris [1997] p.96, a letter to his mother, 1905.

⁵⁴ "The essential contribution of the new Liberals to the Liberal tradition ... was their reevaluation of the state ..." (Weiler [1982] p.17).

lines as the Webbs' "national efficiency" movement. The movement means that true freedom will be realised if corporate freedom, state intervention, would be carried out.

3-3 The Perfect Market Model

When we come to consider a relationship between Beveridge' theory of unemployment and prevailing economic thoughts in those days, we realise that his claim on the labour market has a double meaning. On the one hand, his hidden idea behind the theory surely has intents both to reconstitute orthodox economic thought and to prove its completeness. On the other hand, it has a power that might destroy one of the main pillars of the plain, simple, but dominant economic way of thinking - classical economics at the masses level -.

First of all, Beveridge has a firm belief in the market mechanism as a whole. From his assertion:

There are, no doubt, economic forces which tend in the long run to adjust supply and demand in regard to labour as in regard to all other commodities. (Beveridge [1909] p.4)

. . . this general balance [between supply and demand] is already secured by economic forces. (Beveridge [1909] p.193)

This way of thinking coincides with that of the orthodox thinking. Moreover, he blames the unemployed of East End London in the following manner:

I remember asking myself what had gone wrong with economic laws in East London; if there was no demand for these men why did not they either go away or starve and die? (Beveridge [1955] p.24)

Although economic laws are still valid, why are there always numerous

unemployed people everywhere? This was the central paradox that Beveridge had to confront.

The clue to solving this paradox lies in the uniqueness of the labour market. In reality, there is no single and unified labour market that the classical economics needs. Indeed, as the historian Karl Polanyi once said⁵⁵, One Big Market is necessary for the market mechanism to work perfectly. Polanyi also claimed that after the Speenhamland system was abolished and economic liberalism prevailed around the end of the 18th century, the true class of labourer was born and the labour market was organised at last⁵⁶.

However, Beveridge's explanation goes beyond the 19th-century manner. He regards the labour market both in theory and in the real world as incomplete. According to his claim, the adjustment between supply and demand is not always secured. Past theories and practices neglected the force of friction. They took the supply of labour for granted "as if it were infinitely mobile and adaptable"⁵⁷. Likely, they regarded the demand for labour "as if it were single and concentrated"⁵⁸. Nonetheless, the real market of labour does not act as such.

. . . there is no one labour market but only an infinite number of separate labour markets. (Beveridge [1909] p.70)

The demand is, in fact, broken up by distinctions of place and quality, and subject to perpetual change and fluctuation. The supply is rendered immobile by ignorance and less adaptable by every year of age.

(Beveridge [1909] p.216)

⁵⁵ "These markets - and they are numberless - are interconnected and from One Big Market" (Polanyi [1944] p.72).

⁵⁶ "Not until 1834 was a competitive labor market established in England" (Polanyi [1944] p.83). "The abolishment of Speenhamland was the true birthday of the modern working class" (Polanyi [1944] p.101).

⁵⁷ Beveridge [1909] p.216.

⁵⁸ Beveridge [1909] p.216.

Therefore, for Beveridge, the appropriate measure to eliminate unemployment lies in making the labour market a more complete one. Its means is to organise the labour market, that is to say, to introduce the Labour Exchange. A place is needed where buyers and sellers could gather and shout prices; finally, the equilibrium would be found. In that place, information prevails everywhere in the market, and all attendees satisfy their utility and profit. If this complete market appears, the force of friction and unemployment should reach the minimum level.

His claim is best understood if we borrow a model of the perfect market. As Leon Walras had suggested, the perfect market needs at least the following three mechanisms. Firstly, one big, well-arranged market is necessary where buyers and sellers gather (an auction place). Secondly, an auctioneer is needed who shouts prices and acts as a gap between supply and demand (perfect information). Thirdly, the gap is automatically eliminated in the timeless world (tatonnement process, price mechanism).

Beveridge's idea is so innovative because it is a reconstruction or an expansion of the orthodox economic thinking - Laissez-faire -, whereas this strength would possibly weaken the other side of it. On the one hand, his diagnosis and remedy for unemployment is to produce a perfect market for labour. His proposal in the 1900s could be regarded as the final trial that failed around the 19th century. It was the movement that the workhouse system had intended, by transferring pauper into labour power. As Polanyi pointed out, labour is "the last of the markets to be organised under the new industrial system"⁵⁹. Thus, the theme remained until the 20th century. Creating the new labour market is worthy of a mention in a history of the perfect market⁶⁰. In this way, Beveridge believes in the

⁵⁹ Polanyi [1944] p.77.

⁶⁰ According to the Arrow-Debreu model, the complete market means that there exist numberless markets of every commodity coinciding to every situation. Arrow and Debreu also applied this economy even to the uncertain world where contingent commodities existed and were completely arranged. See Debreu [1959] and Arrow and Hahn [1971].

future of private ownership by applying a model of a free market to the labour market. On the other hand, the measure he takes up in the next step is exclusively different from the original Walras model. The auctioneer is not an invisible price mechanism, but the visible State; that is, the economic intervention by the government into private economy. Here, great innovation appears in a history of economic thought. His idea should be understood by pointing out these twofold aspects.

We must have two reservations: firstly, we do not mean that Beveridge is conscious of this model. Before 1909, he studied a number of classical writings on political economy. However, "he found them barren soil"⁶¹. It is not certain that he read (or understood) the works of the neo-classical school such as Walras and Marshall. We assert that his idea reveals its uniqueness if we consider it through the perfect market model. Secondly, his remedy is incomplete - though revolutionary - to modern eyes. Even if the labour market is more and more efficient, there are no jobs newly created. We must wait until Keynes would discover "the effective demand".

Section 4 Three outflows from *Unemployment*

This section will deal with the influence of Beveridge's *Unemployment* [1909] on later economic thoughts or works⁶² and his own life. The following three outflows are generated from his doctrine of unemployment.

4-1 The Board of Trade

⁶¹ Harris [1997] p.144.

⁶² Typically, see Hobhouse's words; "On all sides we find the State making active provision for the poorer classes ... We find it ... helping them to obtain employment through free Labour Exchanges, seeking to organize the labour market with a view to the mitigation of unemployment ... " (Hobhouse [1911] pp.157-158). It is obvious that these sentences are affected by Beveridge's proposal, though Hobhouse does not mention his name.

When *Unemployment* was published in 1909 after the lecture and the paper were reconstituted, Beveridge's crude belief (a flavour of the New Liberalism) turned into a consistent creed. The creed is the pure doctrine that deals with unemployment in a modern industrial world. In this stage, the point lies in transmuting reality into pure theory. His earlier ambiguous thought had been changed into a rigid conviction. He can watch a clear and concrete target. That is a large-scale system combined with the Labour Exchange and Unemployment Insurance. Note here that in this stage, economic intervention by the government does not contradict a free market - the core of classical economics - in his consciousness.

Beveridge's great fame eventually reached the ears of Ministers in 1908. Some ambitious men in the Liberal Party sought a man of ability who could make popular policies. Winston Churchill, the minister of the Board of Trade, appointed Beveridge as Special civil servant on unemployment on the recommendation of the Webbs. The salary was £600 a year without pension gratuity or allowance for retirement⁶³, higher than that of the *Morning Post* (£500). In 1909, he was immediately promoted to Director of Labour Exchanges at a salary of £700, rising by £25 per annum⁶⁴. As part of the Liberal Reform, the Labour Exchange Act and the National Insurance Act were passed in 1909 and 1911 respectively. It is no exaggeration to say that he himself made the two acts. We can assert that these two laws indicate, in a way, an achievement point of the reciprocal effect between the theory and practice of Beveridge. Although another story⁶⁵ begins during and after World War 1, it will not be discussed here, as another paper is to be prepared.

⁶³ Beveridge [1955] p.73.

⁶⁴ Beveridge [1955] p.72.

⁶⁵ Mainly because the restrictions on unemployment insurance were lightened in the 1920s, a gap between an ideal system and reality was widened. Beveridge came to despair of this situation.

4-2 An Influence on Pigou

An impact on A. C. Pigou is of great significance, though there has been little study to prove this hypothesis. We shall offer three reasons or aspects. To simplify the discussion, we wish to limit the sphere to his *Unemployment* [1913]. This limitation⁶⁶ can be justified by the fact that both books tackle the same theme at about the same time.

To begin with, the above hypothesis is best expressed by Pigou's own words when he says:

The most elaborate English book devoted exclusively to the general problem discussed in this volume is Mr. Beveridge's *Unemployment, a Problem of Industry*. It is a work deserving study by all interested in the subject. (Pigou [1913] p.253)

As was usual in those days, references and notes are not numerous in this book. Nonetheless, Beveridge's book and article are cited at least three times, and his name is referred to at least five times⁶⁷. Pigou advocates six remedies in the concluding chapter. Two out of six are borrowed from Beveridge's ideas as they are⁶⁸. Thus, we should conclude that Beveridge's fame had reached an academic authority who had succeeded to the chair of Professor at Cambridge in 1908. Besides, there is also qualitative influence as well as a quantitative one.

Then, we should note Chapter 10 and 13 of the book. The titles are "the mobility of labour", and "insurance against unemployment" respectively. Pigou says:

⁶⁶ His main work, *Wealth and Welfare* [1912], also spares a considerable quotations from Beveridge's book, at least nine times in 428 pages. Nevertheless, since these are mainly confined to statistics or information about wage, we have concentrated on *Unemployment* [1913].

⁶⁷ Pigou [1913] p.154, p.159, p.217, p.218, and p.253.

⁶⁸ Pigou [1913] pp.242-246.

Mobility means, ... to employ Mr. Beveridge's formula, not mere fluidity, but organized and intelligent fluidity. (Pigou [1913] pp.150-151)

The modern Labour Exchange, ..., not merely a bureau of information, but an actual centre of engagement, will itself take over the task of searching for work. (Pigou [1913] p.215)

Pigou understands the Labour Exchange correctly, taking 23 pages in its explanation. He places high value on the neatness of the system, saying "the expenditure of public money in improving mobility would not merely lessen unemployment, but would, at the same time, increase welfare as a whole"⁶⁹. In addition, "the National Insurance ... which deals with unemployment - is to be conducted in connection with ... the national system of Labour Exchanges"⁷⁰. In short, among "these palliatives the most important are ... the device of insurance against unemployment"⁷¹. A direct influence of Beveridge on Pigou is manifest in these sentences.

Finally, we should not overlook Chapter 11, "direct state action to lessen unemployment". Pigou abandons the creed of Laissez-faire, declaring:

there is room also for direct attack through policies deliberately designed to lessen the fluctuating character of the demand for labour.
(Pigou [1913] p.170)

We pay attention to the words "through policies deliberately designed". These indicate the State interventionism. The way to lessen

⁶⁹ Pigou [1913] p.169. See also the following sentence, "Their efficacy is especially great when they are organized as an interconnected national system" (Pigou [1913] p.245),

⁷⁰ Pigou [1913] pp.216-217.

⁷¹ Pigou [1913] p.246.

unemployment is through counter-cyclical distribution of public demands⁷², to use modern terms. Pigou and Beveridge share remarkable similarities in that they realise a new realm of the State in order to solve the unemployment problem. To be sure, "deliberate design" might not have a direct effect on Pigou. It is, however, an indirect influence or atmosphere, which should be described as the outcome of the New Liberalism in the 1900s and 1910s.

4-3 A resembled idea with Lange

Next, we shall discuss an indirect connection between Beveridge and Oskar Lange, though it might seem a little farfetched.

Lange, in the economic calculation controversy of the 1920s and 1930s, asserts that even in a socialist economy "rational economic accounting is possible"⁷³. In a centralised socialist system, there exists a market for consumer goods and for the services of labour, whereas there is no market for capital goods. Thus, the only difference from a private ownership economy lies in the managers of production who "are assumed to be public officials"⁷⁴. In a competitive market, the problem of equilibrium is solved by trial and error; to use Walras' term, tatonnements (a series of successive trials)⁷⁵. In contrast, the Central Planning Board, or managers, "certainly can and do influence prices"⁷⁶, as if the parametric function of prices was retained. By adjusting a shortage or surplus of goods in question, the managers perform the function of the market. Consequently, "a substitution of planning for the functions of the market is quite possible and workable"⁷⁷.

⁷² See Pigou [1913] p.246.

⁷³ Lange [1938] p.91.

⁷⁴ Lange [1938] p.74.

⁷⁵ Lange [1938] p.70.

⁷⁶ Lange [1938] p.81.

⁷⁷ Lange [1938] p.83.

What is more, a socialist economy is predominant over a capitalist one for three reasons: firstly, the managers have "a much wider knowledge ... than any private entrepreneur"⁷⁸. Secondly, by redistributing incomes, such a system can "attain the maximum social welfare"⁷⁹. Thirdly, a socialist economy can "put all the alternatives into its economic accounting"⁸⁰, including a divergence between the private cost and the social one advocated by Pigou⁸¹. Lange concludes:

The *formal* principles are the same, but the *actual* allocation may be quite different. (Lange [1938] p.99, italics as in original)

What the passage makes clear is that both economies have the same parametric function of prices, while a centralised economy is desirable thanks to informed, intelligent officials.

Lange shares his essential view with Beveridge in that perfection of a market should be achieved by the visible auctioneer. As discussed in Section 3 (3-3), we again borrow a model of the perfect market. Three elements are at least needed; a well-organised auction place, an auctioneer, and tatonnement process. As to the second element, both dismiss the private entrepreneur, instead employing public officials. To be sure, as to the third, Lange's analysis is far beyond Beveridge's because the former comprehends the neo-classical formula of price mechanism. Moreover, Lange widens the realm of "the managers" to all markets, while Beveridge limits his inference to within the labour market⁸². Nonetheless, both have the same revolutionary idea that forces the diversion of the State role. We can make this claim, when considering a model of the perfect market.

⁷⁸ Lange [1938] p.89.

⁷⁹ Lange [1938] p.99.

⁸⁰ Lange [1938] p.104.

⁸¹ This line is also an indirect connection from Beveridge to Lange through Pigou. It is on the subject of an active State role.

⁸² The difference shows naturally their stance on the political system: socialism or the welfare state.

Section 5 Concluding Remarks

We can conclude now by summing up the previous sections at two levels: Beveridge's actual life in chronological order, and his theoretical significance including something of a meta-historical comparison.

5-1 Spiral Development

His life from 1903 to 1909 was particularly practical in two senses. Firstly, in the area of the unemployment problem. On the one hand, he stresses the importance of labour mobility, that is, the perfect market of labour. Its measure is to establish the Labour Exchange system all over the nation. On the other hand, he had changed his job three times by 1908, from Oxford to Whitechapel, to Fleet Street, and to Whitehall. Moreover, a higher salary accompanied these changes of occupation. We can safely state that he puts his pure theory into actual practice in the labour market. Secondly, it is in the phase of his journalistic activity. On the one hand, he joins mass-media activity to inform ordinary people of the necessity of social reform. On the other hand, the fact prevails that he is an able man, owing to his action as a journalist. Life as a writer and an editor is just a medium that promotes him to a bureaucrat with a high salary.

Therefore, his doctrine (which includes economic theory, policy, and thought) and practical life have a spiral and multiple effect on each other. Vague idea sharpens through precious experiences in the settlement house and the daily Newspaper Company. He becomes a researcher as well as a journalist, rather than an impressionable young man. His activities result in a book, *Unemployment*. In this book, the image is clear that free market and policy intervention co-exist. He shows a side of a pure theorist among his diversity. Finally, based on this analysis, Beveridge becomes a policy-maker. In this way, Beveridge forms his ideal economic theory on unemployment thanks to numerous observations of economic reality

around London. Then, he tries to realise this ideal - that is to say, the complete labour market - after he joins the Board of Trade.

We arrive at the conclusion that there exists a reciprocal effect between Beveridge's economic doctrine and his practical life, and that this spiral development enables him to shape the perfect labour market theoretically, legally, and practically.

5-2 An Impact on Economic Thought

Unemployment [1909] is important in a development of economic thought. It is not only because the book, embodying the New Liberalism, tackles a modern unemployment problem, but also because the core idea of Beveridge's influences other economic thoughts more than has been superficially assumed. In this paper, we have proved this influence, taking two cases as examples: Pigou and Lange.

Three elements constitute *Unemployment* [1909]: his experience as mentioned in 5-1, the New Liberalism (a scope for Society and the State interventionism), and an idea of the perfection of a market supported by his belief in economic laws or Laissez-faire. These elements are merged into his elaborate book. Then, three outflows can be observed. As for his experience, he engages in establishing the ideal labour market step by step. It bears fruit in the Labour Exchange and Unemployment Insurance system. The other two inflows are blended in *Unemployment* [1909]. Then the hybrid pours into some of the significant works of economics in those days. We have followed these inflows and outflows with the help of the perfect market model.

We arrive at the conclusion that Beveridge's *Unemployment* [1909] is so crucial and influential as an economic writing, more so than it at first appears, that we should position it properly in a history of economic thought.

Appendix The Beveridge Papers

(a)The Beveridge Papers

in British Library of Political and Economic Science

compiled by Mrs. G. A. Falla, 1981.

Section 1. Personal and Family

- a. family
- b. private and personal papers
- c. diaries
- d. honors and degrees
- e. homes and household affairs
- f. personal finance
- g. photographs and miscellaneous

Section 2. Letters

- a. family
- b. general and personal

Section 3. Unemployment and labour exchanges

Section 4. World War 2

Section 5. Universities

Section 6. Politics

Section 7. Other interests and activities

Section 8. Reports

Section 9a. Published works

Section 9b. Other works

Section 10. "Varia" (pamphlets and offprints)

Section 11. Visits abroad

Section 12. Press cutting

Section 13. Miscellaneous

a. general index

b. index of letters

Section 14. Proceedings of the conference,
social security 50 years after Beveridge, York, 1992

(b)Microfilm

State Provision for Social Need (Adam Matthew Publications)

Series 1: The Beveridge Committee Report on the Welfare State, Public Record Office,
Class PIN8 and CAB87/76-82, 35mm microfilm 26 reels, 1992.

Series 2: The Beveridge Papers.

Part 1: Early Working Papers on Welfare, Labour and Unemployment Insurance, 1902-
1944, 35mm microfilm 24 reels, 1998.

Part 2: Politics, Economics Planning, Social Insurance, Health and the Welfare State,
1944-1963, 35mm microfilm 24 reels, 1999.

Series 2: Part 1.

Reel 1, Item 5. Early Activities

Central (Unemployed) Body for London, conference reports, summaries of working
colony schemes and related papers, 1905-1908.

Reel 2, Item 6. Early Activities

Copy letters between Fabian Ware, E. Peacock and Lord Glenester about management
of The Morning Post, 1906-1909.

Reel 2, Item 11. Early Activities

Notice and syllabus of nine lectures on "the Economics of Unemployment" given at
Oxford, 1908.

Reel 2, Item 12. Early Activities

Papers relating to first three editions, 1907-1913. Includes preface (draft), 1908,
correspondence with Longmans and others, 1908-1913, and royalty statements, 1909-

1911.

Reel 2, Item 13. Unemployment: A Problem of Industry (revised edition)
Correspondence with Longmans and others about a proposed new edition, 1919-1920;
royalty statements, 1918-1921.

Reel 3, Item 16. Unemployment: A Problem of Industry (revised edition)
Pamphlets, articles and reports for use in the proposed revision.

Reel 4, Item 17. Unemployment: A Problem of Industry (revised edition)
Eight lectures on the Problems of Industry, given at LSE, 1921.

Reel 4, Item 18. Unemployment: A Problem of Industry (revised edition)
Correspondence about problems of unemployment, 1921-1927.

Reel 4, Item 19. Unemployment: A Problem of Industry (revised edition)
Plan of proposed revision, including working notes.

Reel 6, Item 24. Unemployment: A Problem of Industry (revised edition)
Reviews of new edition, 1930-1934.

Reel 6, Item 25. Labour Exchanges
Letters of congratulations on appointment to the Board of Trade, 1908.

Reel 7, Item 36. The birth of labour exchanges
Miscellaneous papers, 1909-1915.

Reel 11, Item 55. Insurance for all and everything
Working notes and correspondence with T. W. Philips and others about the pamphlet,
1924.

Acknowledgements

I benefited greatly from reading an earlier version of this paper in the quarterly conference of the Rironshi-Ken (a study group of Economic Theory) at Waseda University, Tokyo on 2nd December 2000. I wish to express my gratitude to Professor Toshiaki Hirai (Sophia University) and

Mr. Michiya Nozaki (Iwate Prefectural University), who were the commentators of my report to the conference, and also to the attendants.

I wish to express my gratitude to Mr. Masazumi Wakatabe (Waseda University) for valuable comments and criticisms. I would like to thank Mr. Yukihiro Shimodaira (Yamagata University) and Mr. Kouji Hatta (Tokyo Metropolitan University) for their assistance in collecting some of the references. I am indebted to the Syukutoku University (Chiba) Library staff. The quotations of the Beveridge Papers are from microfilm reels at Syukutoku University.

I am, of course, entirely responsible for any errors.

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